

## Message Text

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PAGE 01 BRASIL 08459 081712Z

70

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-06 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-03

SIL-01 PA-02 PRS-01 USIA-15 /093 W

----- 039724

R 081620Z NOV 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 6346

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 8459

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: GAZETA MERCANTIL POINTS OUT DIFFICULTIES WITH NEW GOB  
FOREIGN LOAN REGULATIONS

1. CONGEN SAO PAULO PREPARED THE FOLLOWING SUMMARY OF AN  
ARTICLE CARRIED BY THE GAZETA MERCANTIL GIVING REACTIONS TO  
THE RECENTLY-ADOPTED CHANGES IN REGULATIONS GOVERNING  
FOREIGN LOANS TO BRAZIL:

2. SAO PAULO'S GAZETA MERCANTIL INNITS NOVEMBER 1 ISSUE  
QUOTES THE DIRECTOR OF A LARGE FINANCIAL INSTITUTION AS  
SAYING THAT IT IS DOUBTFUL THAT FOREIGN FINANCIAL LOANS WILL  
FLOW IN AT A HIGHER RATE THAN IN THE PAST FEW MONTHS DESPITE  
THE REDUCTION OF TERMS FROM 10 TO 5 YEARS AND OF THE WITHHOLDING  
TAX ON INTEREST FROM 25 TO 5 PERCENT HE CLAIMS, MOREOVER,  
THAT INFLOWS WILL CONTINUE LOW AND THAT DO NOT HAVE FINANCIAL  
RESERVES TO INVEST AT LONG TERM. (THIS VIEW IS CONSISTENT  
WITH VIEWS EXPRESSED TO US BY OTHER BANKERS IN SAO PAULO,  
AND PREVIOUSLY REPORT.)

3. QUOTING OTHER FINANCIAL SOURCES, THE NEWSPAPER STATES THAT  
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PAGE 02 BRASIL 08459 081712Z

BANKS IN THE U.S. FIND IT DIFFICULT TO INVEST FUNDS,

EVEN AT 2-YEAR TERMS AND THAT THE ECONOMIC SITUATION IN EUROPE IS SO COMPLEX THAT, FOR ALL PRACTICAL PURPOSES, EUROPEAN BANKS ARE NO LONGER IN A POSITION TO LEND ABROAD. JAPAN, TOO, FACED WITH A STIFF DEFICIT IN ITS BALANCE OF PAYMENTS, CAN NO LONGER OFFER LONG TERM LOANS.

4. THE NEWSPAPER CLAIMS THAT FIRCE (CENTRAL BANK) CIRCULAR 24 DOES NOT SPELL OUT WHETHER THE REDUCTION OF THE WITHHOLDING TAX IS TO BENEFIT THE LOCAL BORROWER OR THE FOREIGN BANK MAKING THE LOAN. THE ARTICLE ILLUSTRATES THE TWO TYPES OF OPERATIONS CURRENTLY UTILIZED BY FOREIGN BANKS. THESE BANKS CAN EITHER LOAN AT "NET" RATES, WHICH MEANS THE LOCAL BORROWER MUST PAY THE WITHHOLDING TAX, OR THEY CAN LOAN AT "GROSS" RATES UNDER WHICH THEY ABSORB THE WITHHOLDING TAX AND CAN EVENTUALLY DEDUCT THIS FROM THEIR OPERATING EXPENSES OR USE IT AS A TAX CREDIT (IN THE U.S.) UNDER "GROSS RATE" THE COST OF THE OPERATION TO THE FOREIGN LENDER IS LESS THAN AT THE NET RATE (SIC) AND IS PROPORTIONALLY MORE EXPENSIVE TO THE LOCAL BORROWER. GAZETA MERCANTIL MAKES A PLEA FOR FIRCE TO ISSUE NEW REGULATIONS UNDER WHICH FOREIGN BANKS ABROAD COULD LEND SOLELY AT NET RATES RATHER THAN GROSS RATES, IN ORDER TO BENEFIT THE BRAZILIAN BORROWER.

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**TAGS:** EFIN, BR  
**To:** STATE  
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